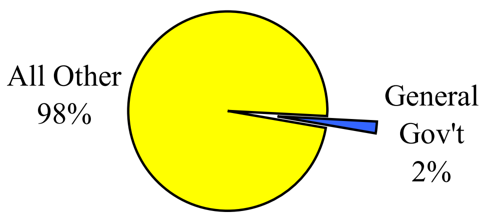
General Government

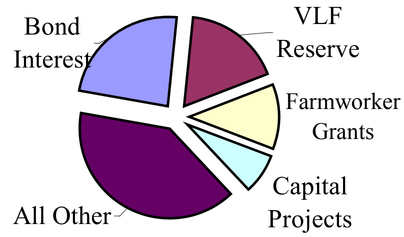
GENERAL GOVERNMENT

The December Revision reduces General Government by $212 million, about two percent of the total reductions. Most significantly, the reductions are associated with reduced bond interest payments, a sweep of an unnecessary reserve, cuts in farmworker grants and capital outlay projects. Graphs 1 and 2 illustrate.

Graph 1
December Revision:
General Government Reduction



Graph 2
Elements of General Government Reductions



DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING

The December Revision eliminates 11 positions from the Department of Fair Employment and Housing. The positions are currently vacant and all relate to the employment work of the department. Among the positions are two district administrators, 3 investigators, legal secretaries and office technicians.

The permanent loss of the employment positions will result in an increase in caseload per investigator. In 2000-01, the department had 126 employment investigators and the caseload per investigator was 69. With the reductions, they now have 103 investigators and the average caseload is 89. Increased caseloads mean that staff has less time to spend investigating each complaint and must constantly re-prioritize their caseload to try to meet the statutory mandate of completing investigations in 365 days. The ideal caseload would be equivalent to the federal EEOC, which averages 40 cases per investigator.

In addition, case expirations in 2000-01 were 26. The department estimates that case expirations for the current year will increase to about 74 as a result of the reduced staff. The elimination of positions will likely result in a diminished quality of work and ability of the state to fully advocate and protect the rights of Californians under the Fair Employment and Housing Act.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT (HCD)

The December Revision reduces the HCD budget by $38.1 million through cuts, fund shifts and loans for HCD.

Program Reductions

- **Emergency Housing and Assistance Program (EHAP)** -- EHAP generally provides capital grants and operating funds for emergency shelters, transitional housing, and services for homeless individuals and families. While this program received $195 million in the recently approved housing bond, those funds can only be used for capital grants to shelter providers. The money in the budget for EHAP covers operating costs, which are an ineligible use of bond funds.

  The Governor proposes reducing the current year appropriation for the program from $5.3 million to $4 million, for a current-year savings of $1.3 million. The program was heavily oversubscribed even when it was funded at levels of $13.3 million in 2001, and the department states that the current NOFA for the $5.3 million is likewise oversubscribed. Moreover, demand for the program is likely to increase as shelters funded with previous appropriations come online. While EHAP funding generally represents no more than 8-15% of funding for any individual shelter, the reduction will result in fewer applicants receiving state funds and the non-recipients having to reduce beds or the number of open nights at their shelters. Homeless families and individuals will have fewer opportunities to access emergency shelter. Failure to provide these additional services will generate some unknown costs to the state, most likely in terms of emergency room visits and incarceration costs for persons arrested for illegal camping.

  The reduction in EHAP funds has arguably the most negative consequences of any of the proposals related to HCD in that it further reduces an already *woefully underfunded program and deprives homeless persons of the basic necessity of shelter.*

- ***State Operations.*** The Governor proposes to eliminate three small programs that are funded through state operations, saving a total of $288,000. Two positions would be eliminated, one that provides outreach and technical assistance to local governments regarding building codes and their enforcement and one that acts as a liaison between the department and the migrant farmworker centers it operates around the state. The reduction in the latter program would still leave four liaison positions.

  In addition, the Governor proposes to eliminate funding in the current budget year for a contract to maintain and update the statewide database on assisted housing units at risk of conversion. The issue of "preservation" is a grave one facing the state. As federal project-based Section 8 contracts expire, the owners may convert currently affordable units to market rate. More than 78,000 of these units are considered "at-risk." Moreover, more than 19,000 units of housing affordable to lower-income households have already been lost. The loss of these units represents not only a loss of precious affordable housing stock, hardship and potential dislocation for tenants (40% of whom are seniors), but also the loss of billions of dollars of federal housing assistance to California each year. HCD proposed to award the contract to the California Housing Partnership Corporation, a state-chartered non-profit organization. The database is a critical piece of the strategy to preserve these at-risk units. Without information about which projects are in the process of converting, tenants, local governments and the state are powerless to plan for and address conversions. Owners are legally obligated to provide advance notice of a conversion, but compliance is irregular and enforcement almost non-existent. Moreover, CHPC has been doing work under the contract since July. They signed the contract at that time and sent it to the state for execution, and it has been held up since. If the contract is not funded, CHPC will be forced to cease its updating of the database, seriously complicating state and local efforts to utilize bond funds dedicated to preserving at-risk housing developments. Replacing affordable housing units is much more expensive than preserving them. *The Legislature may wish to consider restoring this funding.*

Shifts

- **Farmworker Housing Grant Program.** This program provides grant or loan funds to local governments, nonprofit corporations, and federally recognized

Indian tribes for the rehabilitation or new construction of owner-occupied and rental units for low income agricultural workers. The Budget Act of 2002 appropriated $13.984 million to this program, but also stipulated that the appropriation shall be reduced by $8.5 million in the event that voters approved the housing bond. The Governor has proposed increasing this reduction to $11 million.

Moreover, the Budget Act of 2002 requires the department to transfer $3 million in existing balances in the Farmworker Housing Grant Fund to the General Fund if the bond passed. The Governor proposes to revert these funds, as anticipated.

The result of these proposals is to reduce funds available for farmworker housing by $14 million, though $11.5 million of this reduction was foreseen in the budget. In addition, these reductions are mitigated by the fact that the housing bond provides $200 million for the exact same purposes. A significant portion of this bond funding will me made available in January 2003.

- **CalHome Program.** The CalHome Program provides grants and loans to local governments or non-profit organizations for any type of activity that helps low-income households achieve or maintain homeownership. As part of the CalHome Program, HCD recently issued a NOFA for $3 million in self-help housing technical assistance funds. These funds are used by non-profit organizations to administer programs in which low-income families contribute "sweat-equity" to the construction of their own homes. The Governor is proposing to revert $5.5 million in existing CalHome funds, including the $3 million self-help housing technical assistance funds and $2.5 million in other undesignated funds, to the General Fund. In turn, the HCD would make available housing bond funds allocated to the CalHome Program early next year. The proposal reduces the overall amount of funds available to CalHome, but the bond should provide sufficient funding over the next few years.

- **Predevelopment Loan Fund.** The Predevelopment Loan Program provides initial funding to the developers of assisted housing, including mobilehome parks, developed or preserved primarily for low income households. Predevelopment funds are used to cover land purchase, engineering and architectural drawings and initial staff costs to get a project off the ground. Once construction financing for the project is obtained (generally within two years), the predevelopment funds are paid back. The department issued a NOFA in July for $7.4 million and is currently accepting applications over the counter. $4.3 million has already been awarded through the first six months of the fiscal year. The Governor proposes to revert $1.9 million from the program. The result will most likely be that the program will run out of funds before the end of the fiscal year, jeopardizing or delaying some projects. The department will have to wait a number of months for future loan repayments to come in before funds are available again. The reverted funds will NOT be made up with housing bond funds as no provision for predevelopment loans was made in the bond. With little prospect that new general fund dollars will be directed to the program in the near future, this reversion would permanently reduce funding for the program. *To the extent the Legislature is interested in reducing funds available to this program, it may wish to consider a loan rather than an outright reversion so that the funding will be restored at some date.*

Loans

The Governor proposes various loans to the General Fund from program funds at HCD. In many cases, these funds are reserves held to cover the long-term monitoring costs on assisted developments. In such cases, the loan amounts reflect that portion of the reserve that will not be needed until after the 2003-2004 budget year.

- The current-year loan from the Mobilehome Park Purchase Fund is increased by $2 million, from the current $8.1 million to $10.1 million. This fund finances the preservation of affordable mobilehome parks by conversion to ownership or control by resident organizations, nonprofit housing sponsors, or local public agencies. Normally, funding application rounds (RFPs) are opened by the department at least once a year. In September, the department issued an RFP for $8 million under this program, however the department anticipates no more than $6 million in applications. As a result, the proposed loan will not negatively affect the program for the current fiscal year. Because the fund generates only $2.5 million in income per year, ($1.6 million from fees on mobilehome owners and $900,000 from loan repayments), the department would be forced to reduce the NOFA to $3 million in 2003-2004 and subsequent years unless the General Fund loan is repaid in whole or in part by July 2004.

    - A $500,000 loan from the Manufactured Home Recovery Fund. This fund reimburses consumers for losses attributed to illegal mobilehome dealer actions that are unrecoverable. Most revenues derive from a surcharge on the sale of new mobile and manufactured homes by dealers that may be triggered by the department when the balance in the fund falls below $1 million. The fund balance as of July 2002 was $1.9 million. The department estimates paying claims and investigation/administrative costs of $500,000 per year, which would leave $900,000 in the fund at the end of the 2003-2004 budget year even without triggering new fees. *As a result, it might be possible to increase the loan amount to the General Fund to $800,000 without negatively affecting dealers or consumers. The additional $300,000 could offset any decisions to restore reductions to other housing programs.*

- A $1.5 million loan from the Farmworker Housing Grant Fund. This amount represents reserves in the fund that will be needed eventually to fund out-year monitoring costs on assisted developments. The loan would not impact HCD monitoring efforts until after the 2003-2004 budget year.

- Increase the loan from the Housing Rehabilitation Loan Fund from $20 million to $27.3 million. Likewise, this amount represents reserves in the fund that will be needed eventually to fund out-year monitoring costs on assisted developments. The loan would not impact HCD monitoring efforts until after the 2003-2004 budget year.

- A $1.8 million loan from the Rental Housing Construction Fund. This loan is from reserves that will eventually be needed to monitor and fulfill operating subsidy commitments for developments funded under earlier housing bonds. The loan will not affect HCD obligations until after the 2003-2004 budget year.

- A $1.6 million loan from the Emergency Housing Assistance Fund. This amount represents reserves in the fund that will be needed eventually to fund out-year monitoring costs on assisted facilities. The loan would not impact HCD monitoring efforts until after the 2003-2004 budget year.

- A $3.4 million loan from the Self-Help Housing Fund. Most of this amount represents reserves setaside for future monitoring costs. Some is actual CalHome local assistance money that is offset by the availability of bond funds.

Timing

To the extent the Legislature is interested in approving these reductions, it would be appropriate to make the reductions in January rather than waiting for the budget year. In many of the cases, the department has already issued NOFAs making the funds available. Absent the reductions or a clear message that the department is not to encumber the funds, it is possible and even likely that many of the funds will be encumbered in the next few months. With respect to the loans, the Legislature may wish to consider setting a fixed date for repayment of the loans so as to minimize future disruptions to the programs.

DEPARTMENT OF VETERANS AFFAIRS

The governor poses to cut the department and Veterans Homes by $618,000. The reductions will cut county veterans' services offices, and travel and training for department headquarters and Yountville and Chula Vista Veterans Home staff.

Alternatives

Contract for Certain Hospital Services. The Legislature may wish to consider closing small or inefficient hospital units in the homes. The department can contract with nearby hospitals to treat the patients. Initial review by the Senate Office of Research suggests that the change could improve care.

Place the Department Into Receivership. Put the department's finances under a receiver to solve some of the long-term fiscal problems that you, the State Auditor, the State Personnel Board, and many others have identified. Shift some department headquarters funds from the department to the receiver to pay for the receivership; a possible side benefit of such a shift is that it might result in laying off some of the entrenched problem staff in headquarters.

INSPECTOR GENERAL FOR VETERANS AFFAIRS

The governor proposes to cut the Inspector General for Veterans Affairs by $25,000. This eliminates his employment of some retired annuitants, limit his travel to the Veterans Homes and elsewhere, and delay audits, and thus hinder his ability to police this severely troubled department.

Alternatives

1. Give the IG peace-officer status, as the IG for Corrections has. This would allow him to participate and, if no other law-enforcement agency has the interest, conduct criminal investigations of Veterans Home staff. He reports that there is a nurse at Barstow who is accused of falsifying records in a patient death two years ago and who the Department of Justice still has not investigated.

2. Require, rather than simply allow, the IG to conduct investigations at the request of legislators, eliminating his need to get approval from the Governor's Office.

TECHNOLOGY, TRADE AND COMMERCE AGENCY

Biomass Grants
The December Revision reduces the biomass grant program by $4 million.

Background. The program grants to air districts to provide incentives to facilities converting agricultural biomass to energy. The last appropriation to this program appears to be $3.5 million transferred by SB 64xx from an SB 5x appropriation in 2001.

Comments. These are one-time refunds of the remains of prior GF appropriations. They produce no long-term GF consequences.

Revert previous appropriation for Economic Development
The Agency houses the Economic Development Division that includes the Offices of Military Base Reuse and Base Retention, Business Development, Small Business, Permit Assistance, Major Corporate Projects, the California Film Commission and four regional offices. The revision proposes to revert unspent funds from prior years for a savings of almost $300,000.

The impact of reverting these funds is minimal. The $280,000 in the 2002-03 Budget was originally appropriated in 1997 and reappropriated in 2000 rather than being reverted back to the General Fund. According to the Agency, there is no identifiable need for these funds.

Reduce International Trade and Investment Program

The intent of the Foreign Trade Offices in the Agency's International Trade and Investment Division is to promote California exports and attract investment into the state. The offices work with other International Trade and Investment programs through seminars and conferences to assist California small- and medium-sized firms have adequate access to knowledge about foreign markets and services necessary to compete in international markets.

Table 1
Foreign Trade Offices
(state employees)
2002-03 Appropriation prior to Implementing the Unallocated Reduction

South Africa	$414,000
Germany	560,000
China - Hong Kong	838,000
Japan	1,052,000
United Kingdom	522,000
Mexico	1,155,000
Taiwan	331,000
Total, Trade Offices	**$4,872,000**

The Agency has two types of Foreign Trade Offices: offices staffed by state employees and those staffed with contract employees. According to the policy committee, both types of offices provide essentially the same services, and contract offices are significantly less expensive. Table 1 lists the foreign trade offices staffed with state employees. Table 2 lists the contract offices.

The 2002-03 budget appropriates $4.9 million for the offices staffed with state employees, and $1.2 million for the contract offices. The budget further requires a an unallocated reduction to these offices of $2 million, thereby reducing the total appropriation for these offices from $6.1 million to $4.1 million. It is not clear how the Administration intends distribute the unallocated reduction among the trade offices.

Table 2
Foreign Trade Offices
(contract staff)

2002-03 Appropriation prior to Implementing the Unallocated Reduction

South Korea	$261,000
China – Shanghai	270,000
Singapore	200,000
Argentina	265,000
Israel	200,000
Total, Contract Offices	$1,196,000

The December Revision further reduces the international trade program. The savings would be achieved, according to the Department of Finance, by closing the contract offices after

January 2003. After accounting for the effect of the unallocated reductions and the costs of shutting down the offices, the proposal would revert current-year savings of $240,000 and provide on-going savings of about $480,000.

According to the Senate policy committee, the impact of closing the contract offices is minimal. The effectiveness of the foreign trade offices has been in question since their inception under allegations that the motivation for their establishment has been political, rather than trade policy oriented. In fact, the *Supplemental Report of the 1998-1999 Budget Act* required the Technology, Trade and Commerce Agency to establish measures to evaluate the performance of the trade offices and to report the results to the Legislature. The report was not released to the Legislature by the due date. In her *Analysis of the 1999-2000 Budget,* the Legislative Analyst withholds recommendation on the appropriation for the trade offices until the agency complies with the report requirements.

Several members of the Senate Committee on Banking, Commerce and International Trade voiced serious concerns last session about the lack of objective performance standards and evaluation of the international trade and investment offices. The Committee introduced SB 2099 which, in its original form, would have established a sunset date in 2005 for all the foreign trade offices. The bill was substantially amended to delete the sunset date and require performance criteria. Although SB 2099 was not moved out of the Legislature, the performance criteria language was adopted in the Budget.

Reduce Out-of-State Travel

While the Agency has a number of out-of-state/country travel planned as part of its trade promotion programs in 2003, most of these trips are privately and/or federally funded. The proposed reduction saves about $100,000.

Reimbursement of Film Production Costs

The Film California First (FCF) program, administered by the Agency, is a program to assist production companies by providing various incentives and assistance in using state leased property. Reimbursement from the fund is on a first-come, first-serve basis and production companies can only qualify for up to $300,000 for reimbursement of film costs. Reimbursement for administrative costs can not exceed 1 percent of the total amount of the invoices submitted and has an annual cap of not more than $10,000 per public agency participating in the program. Contracted agents working on behalf of two or more public agencies has a cap of not more than $20,000 annually.

The December Revision transfers $2.1 million from the Film California First program to the General Fund. The impact of this reduction is minimal as there will still be $8 million in program funds, which is approximately the annual demand since the programs inception in 2000-01. Last year, there was approximately $10 million available from the State budget for the FCF fund. In the first calendar year of the FCF, over 800 projects have requested $6 million in rebates for filming costs in California. Right now there are approximately 200 additional projects that are in the pipeline to receive funds.

Return Start-up Funds from the Infrastructure Bank
The California Infrastructure and Economic Development Bank (I-Bank) is a statewide issuer of tax-exempt and taxable conduit revenue bonds which assists business and non-profit organizations. A conduit revenue bond is an obligation issued by a governmental agency, but payable solely from the loan repayments received under a loan agreement with the borrower. The bonds do not constitute an obligation of either the State or the I-Bank. Since its inception in 1994, the I-Bank has provided approximately $8.2 billion in bond financing to a wide variety of businesses and organizations.

The December Revision transfers $295,000 from the bank to the General Fund. Of this amount, $235,000 was provided s a start-up appropriation for the I-Bank. The bank is now supported by fees and interest on its loan activities. The balance, $60,000, was appropriated for the establishment of a satellite office. Trade and Commerce has not established the office. The impact of this reduction is minimal.

The Rural Economic Development Infrastructure Program (REDIP)
The December Revision includes a loan of $1.7 million from REDIP. This program finances local public infrastructure projects that create jobs in rural cities and counties with an unemployment rate either equal to or above the State's average. Eligible projects include sewer, water and transportation facilities.

The funds to be loaned to the General Fund represent the current balance in the program. In effect, the program is being shut down, but the loan allows the program to be reinstated in the future. In the meantime, applicants will be referred to the Infrastructure Bank which also is able to provide loans to local governments for infrastructure projects. The interest rates under both programs are comparable. The only disadvantage to this proposal is that the infrastructure bank loans carry origination fees (85 basis points) and annual servicing fees (30 basis points).

Alternatives

The policy staff suggest the following additional cuts to the agency:

- ***Increase the Fee for the California Export Finance Office (CEFO) Loan Guarantee Program***. The CEFO program, administered by the Agency, issues guarantees primarily to small and medium-sized companies, often first-time exporters. CEFO financing enables export sales for companies who otherwise would not have been able to complete these transactions.

  Currently, the CEFO fee is $100 for the application and 1.5% of the loan amount after six months. This fee structure was established by the CEFO board and is consistent with the fee structure of the EXIM Bank.

  Increasing the fee to $150 for the application and 2% of the loan amount after six months would increase the revenue of the program and would make the program more self- sufficient.

- ***Establish a Fee for Export Development Services***. The Agency's Office of Export Development provides export-related assistance such as arranging or participating in international trade shows and trade missions, and offering "matchmaking" services for overseas buyer delegations and commercial visitors. The office identifies international contracts to be awarded by foreign governments and international institutions of interest to California businesses, publishes trade directories listing California manufacturers and suppliers active in foreign trade, and provides trade leads and market information.

  The nominal fees currently charged for services are not enough to cover administrative expenses of the office. Establishing a fee structure for these services could serve to make the OED self sufficient and possibly even revenue producing.

- ***Eliminate the Film California First Program.*** In a time of severe budgetary shortfalls, when health and social services programs are being drastically reduced, it is difficult to justify subsidizing a multi-billion dollar film industry. Eliminating this program would save the state almost $8 million.

- ***Further Reductions in the Foreign Trade Offices and Moratorium on Establishing New Offices.*** While the funding for Foreign Trade Offices has already been reduced, there is room for further reductions. Perhaps the Senate should consider converting the Foreign Trade Offices to contract offices.

SPECIAL RESERVE FUND VEHICLE LICENSE FEE (VLF) TAX RELIEF

When the Legislature initially authorized the VLF tax relief, taxpayers did not receive the direct benefit of a tax cut. They paid the full amount of the VLF tax due, but were "rebated" the relief after they paid the tax. In 2001, the "rebate" was changed to a tax "offset." The offset provided an immediate reduction in the tax due, and obviated the need for a later rebate.

As part of the original rebate language, the Legislature created the reserve fund to ensure that there was sufficient funds to pay tax rebates. There remains in the reserve about $33 million. As the reserve is no longer needed, the reserve balance can be returned to the General Fund, for an increase in General Fund resources. The December Revision transfers the remaining $33 million in this fund to the General Fund.

DEPARTMENT OF GENERAL SERVICES (DGS)

The December Revision reduces the state's capital outlay program by about $15 million Of this amount, $13.6 million is attributable to projects scheduled for the budget year. The Department of Finance has provided no detail about which projects would be eliminated or delayed.

CALIFORNIA ENERGY COMMISSION (CEC)

The December Revision reduces the commission's reserve for making grants for increasing energy efficiency, particularly the "cool roofs" program. The reduction is nearly $1.7 million.

The revision also reduces the appropriation for making grants to large users for the installation of time-of-use/real time meters, for a savings of $54,000.

Alternatives. Policy staff suggest four ways to mitigate the reductions to the Energy Commission:

- *Impose fees on power plant applicants* sufficient to cover the Energy Commission's cost of reviewing the application. (Note: The CEC recieves no General Fund revenue, but this action might reduce pressure to increase commission fees.) The CEC owes the Analyst a report on the feasibility of imposing filing fees.

- *Charge telecommunications utilities for use of state-owned rights of way.*

- *Cut the Electricity Oversight Board (EOB),* as was done by the Senate budget committee in 2002. Although the board is supported entirely by the Utilities Reimbursement Account, reducing the board's budget could free up funds for other endangered priorities.

- *Capture proceeds from FERC*-ordered refunds or energy contract renegotiations. It is very uncertain how, when or if any actual dollars will come back to the Department of Water Resources.

BOND INTEREST PAYMENTS

The December Revision reduces current-year bond payments by $15 million and budget-year payments for an additional $30 million. This is, apparently, attributable to lower-than-anticipated interest charges. It appears that these savings accrue to the state automatically and do no require legislative action.

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